

Message Text

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ACTION ARA-06

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LIMDIS

DEPT PLEASE PASS ASST SECY SHLAUDEMANN IMMEDIATE

FOR DELIVERY OPENING OF BUSINESS SEPT. 24

FOR ARA, EB AND L

E.O. 11652: XGDS-2

TAGS: ENRG PFOR EC

SUBJ: GULF DISPUTE

REF: QUITO 6808

1. SUMMARY: GULF VICE PRESIDENT WYCHE--WITHOUT FINAL APPROVAL OF GULF'S BOARD OF DIRECTORS-- AGREED SEPTEMBER 23 THAT GULF PAY OVERDUE DEPOSITS IN FULL, PAY UPCOMING DEPOSITS AS THEY COME DUE, AND CONTINUE CASH PAYMENTS FOR CURRENT SHIPMENTS. IN RETURN, GULF WOULD REQUIRE A LETTER OF INTENT FROM THE GOE SPECIFYING EXACT CONDITIONS OF THE GOE'S PURCHASE OF GULF ASSETS IN ECUADOR. PRESIDENT POVEDA HAS INFORMED ME THAT GULF'S "CONDITIONAL" PROPOSAL IS POLITICALLY UNACCEPTABLE TO THE GOE. POVEDA SUGGESTED THAT THIS SAME LETTER OF INTENT COULD BE PROVIDED AS A CONFIDENTIAL AIDE MEMOIRE TO THE U.S. EMBASSY IN QUITO AND WOULD PROVIDE AN ASSURANCE THAT THE GOE WOULD SUBSEQUENTLY

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FULFILL ITS OBLIGATIONS TO GULF. GULF OFFICIALS WERE COOL TO

POVEDA'S PROPOSAL; WYCHE, HOWEVER, HINTED THAT THE PROPOSAL MIGHT BE ACCEPTABLE IF GULF WERE NOT REQUIRED TO PAY CASH FOR CURRENT SHIPMENTS. I WILL MEET WITH PRESIDENT POVEDA AGAIN TO ARGUE THAT THE LETTER OF CADUCITY ONLY REQUIRES THAT OVERDUE DEPOSITS BE PAID IN FULL AND THAT THUS GULF SHOULD BE EXEMPTED FROM CASH PAYMENTS. I URGE, HOWEVER, THAT THE DEPARTMENT ACCEPT POVEDA'S PROPOSAL--AND URGE THAT GULF DO LIKEWISE. END SUMMARY.

2. GULF VICE PRESIDENT PHILLIP WYCHE, GULF ATTORNEY GLENN LUCAS, AND LOCAL MANAGER JACK O'BRIEN CALLED ON ME THE EVENING OF SEPTEMBER 23 TO REPORT RESULTS OF MEETINGS WITH MINISTER OF NATURAL RESOURCES RENE VARGAS AND MINISTER OF FINANCE CESAR ROBALINO. WYCHE REPORTED THAT VARGAS HAD INITIALLY SAID "NO" TO GULF'S PROPOSAL AND INSISTED THAT GULF PAY OVERDUE DEPOSITS IN FULL OR BE CADUCED. IN LATER MEETINGS, HOWEVER, VARGAS SOFTENED HIS POSITION (OBVIOUSLY BY ORDERS OF THE SUPREME COUNCIL) AND TOLD GULF THEY SHOULD "WORK OUT DETAILS OF THE PURCHASE OF GULF'S ASSETS WITH ROBALINO."

3. IN GULF'S FINAL MEETING WITH ROBALINO, WYCHE AGREED THAT THE \$27 MILLION GULF (HAS PAID) IN ADVANCE DEPOSITS (CASH LIFTINGS) BE CREDITED AGAINST THE \$46 MILLION NOW IN ARREARS; THAT GULF WOULD PAY THE GOE \$19 MILLION IN CASH FOR THE REMAINDER OF THE OVERDUE DEPOSITS; THAT "POTENTIALLY OVERDUE" DEPOSITS WOULD BE RESUMED AS THEY COMEDUE; AND THAT GULF WOULD ISSUE THE GOE AN IRREVOCABLE LETTER OF CREDIT PROVIDING FOR PAYMENT ON ALL CURRENT SHIPMENTS.

4. IN EXCHANGE THE GOE WOULD ISSUE A LETTER OF INTENT SPELLING OUT THE FORMULA THAT THE GOE WOULD USE TO PURCHASE GULF'S ASSETS IN ECUADOR. WYCHE EXPLAINED THAT GULF WOULD INSIST THAT THIS FORMULA PROVIDE FOR GOE PURCHASE OF ALL GULF'S ASSETS IN ECUADOR--INCLUDING THE PIPELINE--AT NET BOOK VALUE, AND SETTLEMENT OF THE GOE'S DEBTS TO GULF. WYCHE EMPHASIZED TO ROBALINO THAT HIS PROPOSAL DID NOT YET HAVE THE APPROVAL OF GULF'S BOARD OF DIRECTORS. (WYCHE MENTIONED TO ME, HOWEVER, THAT HE DID NOT FORESEE SERIOUS DIFFICULTIES IN GETTING THE APPROVAL OF GULF'S BOARD.) ROBALINO SAID HE WOULD SUMIT GULF'S PROPOSAL TO THE SUPREME COUNCIL.

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5. IMMEDIATELY AFTER MY MEETING WITH GULF OFFICIALS, I WAS SUMMONED BY PRESIDENT POVEDA WHO TOLD ME THAT GULF'S PROPOSAL WAS POLITICALLY UNACCEPTABLE TO THE GOE SINCE IT PLACED "CONDITIONS" ON GULF'S PAYMENT OF OVERDUE DEPOSITS. AND THAT THIS WOULD APPEAR TO THE PUBLIC AS IF GULF HAS SUCCEEDED IN PRESSURING THE GOE. POVEDA, HOWEVER, SUGGESTED THAT THE GOE COULD COMPLY WITH GULF'S REQUEST FOR A LETTER OF INTENT BY

ISSUING A CONFIDENTIAL AIDE MEMOIRE BEFORE OCTOBER 1 TO THE U.S. EMBASSY OUTLINING THE CRITERIA FOR THE PURCHASE OF GULF'S ASSETS. GULF AND THE USG WOULD THE HAVE A STRONG WEAPON IN CASE OF THE GOE'S NONCOMPLIANCE. POVEDA SAID HE HAD NOT YET DISCUSSED HIS PROPOAL WITH OTHER MEMBERS OF THE SUPREME COUNCIL. ASSUMING THAT THEY APPROVED, HE SAID HE HOPED TO HAVE A DRAFT PROPOSAL READY BY SEPTEMBER 25.

6. I MADE IT VERY CLEAR TO POVEDA THAT I HAD NOT IDEA IF THE USG WOULD ACCEPT SUCH A PROPOSAL, MUCH LESS GULF. I TOLD HIM THAT I WOULD, OF COURSE, DISCUSS HIS PROPOSAL WITH GULF AND MY GOVERNMENT.

7. I REPORTED POVEDA'S PROPOSAL TO WYCHE AND LUCAS IMMEDIATELY. WYCHE WAS PARTICULARLY COOL TO THE PROPOSAL AND POINTED OUT THAT POVEDA HAS FREQUENTLY PROMISED CONCESSIONS TO TEXACO AND GULF AND THEN BEEN UNABLE TO DELIVER. I RESPONDED THAT THE PROPOSAL BOTH ALLOWED THE GOE TO SAVE FACE AND WOULD SUBSTANTIALLY IMPROVE THE USG'S ABILITY TO PURSUE GULF'S CLAIM, IF NECESSARY. LUCAS SUGGESTED THAT POVEDA'S PROPOSAL MIGHT BE ACCEPTABLE TO GULF IF THE COMMITMENT CONTAINED IN THE AIDE MEMOIRE GIVEN TO THE EMBASSY WOULD BE INCLUDED IN A LETTER TO GULF SOON AFTER GULF'S PAYMENT OF OVERDUE DEPOSITS. I TOLD LUCAS THAT POVEDA HIMSELF HAD MENTIONED SOMETHING ALONG THESE LINES--PORTRAYED AS A DECISION OF THE GOE--SINCE THE GOE WOULD HAVE NO POLITICAL CONSTRAINT ON PURCHASE OF GULF'S ASSETS IF THE PUBLIC COULD BE TOLD BEFOREHAND THAT GULF HAD COMPLIED WITH ECUADOREAN LAW.

8. WYCHE SAID HE BELIEVED THAT IT WOULD BE DIFFICULT TO CONVINCE GULF'S BOARD OF DIRECTORS TO ACCEPT POVEDA'S PROPOSAL. GULF, WYCHE POINTED OUT WOULD BE AGREEING TO PAY SOME \$68 MILLION IN WITHHELD DEPOSITS AND PAY AN ADDITIONAL
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\$60 IN CASH SHIPMENTS FOR THE REMAINDER OF THE YEAR. WYCHE SAID HE MIGHT, HOWEVER, BE ABLE TO SELL POVEDA'S PROPOSAL TO GULF IF GULF COULD REVERT TO ITS SYSTEM OF DEPOSITING WITHIN 120 DAYS. WYCHE ALSO SAID HE WOULD HAVE TO HAVE THE AGREEMENT IN PRINCIPLE OF GULF'S BOARD OF DIRECTORS BEFORE LOCAL GULF OFFICIALS COULD NEGOTIATE WITH THE GOE ON THE LETTER OF INTENT. WYCHE WILL PERSONALLY PRESENT PROPOSAL TO HIS PRINCIPALS AND EXPECTS A GULF DECISION BY SEPT. 25.

9. IF THIS APPROACH IS ACCEPTABLE TO THE USG AND GULF, I WOULD THEN BE PREPARED TO ARGUE WITH POVEDA THAT GULF SHOULD NOT BE REQUIRED TO CONTINUE CASH PAYMENTS FOR CURRENT LIFTINGS SINCE ONLY OVERDUE DEPOSITS ARE REQUIRED BY ECUADOREAN LAW.

10. I STRONGLY RECOMMEND THAT THE DEPARTMENT AGREE TO POVEDA'S

PROPOSAL. IT WOULD PERMIT THE GOE TO SAVE FACE VIS-A-VIS THE ECUADOREAN PUBLIC--WHICH I BELIEVE IS AN ESSENTIAL INGREDIENT OF ANY SETTLEMENT. IT WOULD GIVE GULF EVEN MORE ASSURANCES THAN THE LETTER OF INTENT THEY HAVE REQUESTED, INASMUCH AS IT WOULD CONSTITUTE A GOVERNMENT-TO-GOVERNMENT COMMITMENT. AND THE USG WOULD ONLY BE A TEMPORARY PARTY TO THE ARRANGEMENT, AS PART OF THE DEAL IS THE ISSUANCE BY THE GOE OF THE SAME CRITERIA AS CONTAINED IN THE AIDE MEMOIRE. I REALIZE THAT THIS IS A SOMEWHAT UNACCUSTOMED ROLE FOR THE USG, BUT I BELIEVE WE HAVE ALREADY TAKEN A FAR MORE MORE ACTIVIST ROLE IN THE MARCONA CASE, AND THERE ONLY AFTER THE FAT WAS IN THE FIRE. MOREOVER, I AM CONVINCED POVEDA'S PROPOSAL IS THE LAST CHANCE OF AVERTING DISASTER ON SEPT. 30.

11. I ALSO RECOMMEND THAT THE DEPARTMENT URGE GULF TO AGREE TO THE POVEDA FORMULA, PROVIDED I CAN GET THE GOE TO DROP THE REQUIREMENT OF CASH DEPOSITS ON FUTURE SHIPMENTS.
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